

1998 Manufacturers' Investment Credit**3535**

Attach to your California tax return.

Name(s) as shown on return

Social security, California corporation or
entity identification (ID) number

FEIN

Qualified Taxpayer's SIC Code Activity. **Caution:** See instructions.**Part I Credit Computation** (See instructions before completing)**Primary Use Code – See General Information H, Definitions**

Enter a code letter in column (b) for each item of property. Property must be primarily used for one of these activities:

A = Manufacturing **B** = Research and Development **C** = Pollution Control **D** = Maintenance, repair, measurement or testing of qualified property
E = Recycling **F** = Fabricating **G** = Refining **H** = Processing
I = Develop or manufacture prepackaged software or custom software

Qualified Costs (See Specific Line Instructions)

(a) Description of property	(b) Primary use code	(c) SIC code for property's primary use	(d) Property leased? Y / N	(e) Date placed in service (mo./yr.)	(f) Amount of California sales or use tax paid	(g) Cost of property — Do not include sales or use tax paid	(h) Capitalized direct labor costs allocated to property	(i) Total Costs (add col. (g) and col. (h))	(j) Mandatory adjustments (see instructions)
1									

2 Add the amounts in column (i) and column (j)**2****3** Total 1998 qualified costs. Subtract the amount on line 2, column (j) from line 2, column (i).**3****4** Multiply line 3 by 6% (.06)**4****5** Pass-through manufacturers' investment credit(s) from Schedule K-1(s) (100S, 541, 565 or 568). See instructions.

(a) Name of pass-through entity:	(b) Entity ID no., California corporation number, FEIN, etc.	(c) Amount of pass-through credit

Total pass-through manufacturers' investment credit. Add the amounts in column (c)

5**6** Add line 4 and line 5. This is your current year manufacturers' investment credit. **S corporations:** Go to line 7 below.**All others:** Skip line 7, and go to line 8 below**6****7** S corporations only: Multiply line 6 by 1/3. See instructions**7****8** Credit carryover from prior year(s). See instructions**8****9** Total available credit. **S corporations:** Add line 7 and line 8. **All others:** Add line 6 and line 8**9****10** Enter the amount of credit claimed on current year tax return. **Caution:** Your credit may be limited.

See instructions

10**11** Credit carryover available for future years. Subtract line 10 from line 9**11**

Part II Credit Use and Carryover Periods (See instructions)**8 Year Carryover Period**

(a) Year	(b) Credit generated in current year	(c) Prior year(s) carryover amount	(d) Amount used in 1998	(e) Credit carryover to future years
1 1994 & 1995				
2 1996				
3 1997				
4 1998				

10 Year Carryover Period (Small businesses only)

(a) Year	(b) Credit generated in current year	(c) Prior year(s) carryover amount	(d) Amount used in 1998	(e) Credit carryover to future years
5 1994 & 1995				
6 1996				
7 1997				
8 1998				
9 Total				

Part III Credit Recapture (See instructions)

(a) Property description	(b) Recapture code	(c) Credit recapture
1		
2 Total recapture amount. Add the amounts in column (c). See instructions.	2	

Instructions for Form FTB 3535

Manufacturers' Investment Credit

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1998**, and to the California Revenue and Taxation Code (R&TC).

General Information

A What's New

Conformity. In general, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal tax law. California has not conformed to the changes made to the IRC by the federal Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (Public Law 105-206) and the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277).

Definitions. For taxable or income years beginning on or after January 1, 1998, the definition of "qualified taxpayer" is expanded to include any taxpayer engaged in activities related to computer programming services or computer software design (Standard Industrial Classification (SIC) Codes 7371-7373). Additionally, the definition of "qualified property" is expanded to include property consisting of computer and computer peripheral equipment used primarily by a qualified taxpayer to develop or manufacture prepackaged software or custom software.

Classification. In 1998, the Franchise Tax Board (FTB) implemented the new principal business activity (PBA) code chart that is based on the North American Industrial Classification System (NAICS). However, the R&TC still refers to the SIC for purposes of qualifying for the manufacturers' investment credit.

B Purpose

Use form FTB 3535 to figure and claim a credit for qualified costs paid or incurred by qualified taxpayers for acquiring, constructing or reconstructing qualified property. Also use this form to claim pass-through manufacturers' investment credits received from S corporations, estates or trusts, partnerships or limited liability companies (LLCs) taxed as partnerships.

S corporations, estates or trusts, partnerships and LLCs taxed as partnerships should complete form FTB 3535 to figure the amount of credit to pass through to shareholders, beneficiaries, partners or members. Attach this form to Form 100S, Form 541, Form 565 or Form 568. Show the pass-through credit for each shareholder, beneficiary, partner or member on Schedule K-1 (100S, 541, 565 or 568).

Special rules apply in the case of qualified property that is leased. See General Information G, Special Rules for Leased Property.

C Description

The manufacturers' investment credit is generated in the taxable or income year the qualified property is placed in service in California.

Investments in qualified property made on or after January 1, 1994, can qualify for the manufacturers' investment credit. The qualified property must be placed in service in California and must be used for qualified purposes (generally manufacturing or research and development).

For more information on the manufacturers' investment credit, get FTB 1113, Frequently Asked Questions About the Manufacturers' Investment Credit (MIC), and the California Code of Regulations, Title 18, Sections 17053.49-0 through 17053.49-11 for Personal Income Tax Law and Sections 23649-0 through 23649-11 for Bank and Corporation Tax Law.

D Qualified Taxpayer

A qualified taxpayer may be an individual, partnership, corporation, LLC, estate or trust. A qualified taxpayer must be engaged in at least one line of business that is properly classified as an operating establishment under Division D (SIC Codes 2011 through 3999) or under SIC Codes 7371 through 7373 (for taxable or income years beginning on or after January 1, 1998) of the Standard Industrial Classification (SIC) Manual, 1987 Edition. A list of the qualified SIC codes is at the end of these instructions, along with the address of where to purchase the manual. You must determine your SIC code(s) according to the rules and methods described in the SIC Manual, 1987 edition. Any SIC code assignment made by any federal, state (other than the California Franchise Tax Board (FTB)), regional or local government agency is not controlling.

An establishment is an economic unit (as distinguished from subunits such as departments), generally at a single physical location, where business is conducted or where services, manufacturing or other industrial operations are performed. Examples of establishments are included in the information for determining SIC classifications on page 5.

E Qualified Property

Qualified property includes only new or used property that is placed in service in California. Qualified property is either of the following:

1. Tangible personal property that is characterized as depreciable or amortizable under IRC Section 1245(a).
The property must be used by a qualified taxpayer in one of the taxpayer's establishments classified under SIC Codes 2011 through 3999 and used primarily in any of the following activities:
 - Manufacturing, processing, refining, fabricating or recycling;
 - Research and development;
 - Maintaining, repairing, testing or measuring other qualified property; or
 - Pollution control meeting or exceeding established state or local standards.

For taxable or income years beginning on or after January 1, 1998, the property may be used by a qualified taxpayer in one of the taxpayer's establishments classified under SIC Codes 7371 through 7373 and used primarily to develop or manufacture prepackaged software or custom software.

Primarily means that the qualified property is used 50% or more of the time in a qualified activity.

2. The value of any capitalized labor costs that is directly allocable to the construction or modification of qualified property described in 1 above.
3. "Off-the-shelf" computer software used by a qualified taxpayer in one of the taxpayer's establishments classified under SIC Codes 2011 through 3999 and used primarily in any of the activities described in 1 above.
4. Special purpose buildings and foundations that are constructed or modified by qualified taxpayers engaged in one of the following activities:
 - The manufacturing of computer and office equipment (SIC Codes 3571 through 3579) or electronic components and accessories (SIC Codes 3671 through 3679);
 - Commercial physical and biological research and development on a contract or fee basis (SIC Code 8731);
 - The manufacturing, fabricating, or processing of medicinal chemicals and pharmaceutical products (SIC Codes 2833 through 2836) in a biopharmaceutical activity;
 - The manufacturing of space vehicles and parts (SIC Codes 3761 through 3769) or space satellites and communications satellites and equipment (SIC Codes 3663 and 3812); or
 - The manufacturing of semiconductor equipment (SIC Code 3559).
5. The value of any capitalized labor costs that is directly allocable to the construction or modification of qualified property described in 4 above.

The special purpose building or foundation must be used by a qualified taxpayer:

- For manufacturing, processing, refining or fabricating; or
- As a research or storage facility used primarily in connection with a manufacturing process.

To be qualified as a special purpose building, the specific machinery and equipment for which the building is designed must also have a special purpose. Accordingly, buildings and foundations which do **not** meet the definition of special purpose buildings and foundations include, but are not limited to, general purpose manufacturing and industrial or commercial buildings.

Additionally, research or storage facilities that are used primarily before and/or after a manufacturing process are not special purpose buildings.

Property That Does Not Qualify

Qualified property does not include any of the following: furniture, inventory, warehouse facilities used for storage after completion of the manufacturing process, equipment used to store finished products after completion of the manufacturing process, property used in administration, general management or marketing, equipment used in the extraction process or any vehicle for which the former low-emission vehicle credit has been claimed.

F Qualified Costs

1. Qualified costs are costs that satisfy **all** of the following requirements. **Note:** For qualified taxpayers engaged in those lines of business under SIC Codes 7371 through 7373, substitute "*the first taxable or income year beginning on or after January 1, 1998,*" for "*January 1, 1994,*" in each place that it appears.

Costs must be:

- Paid or incurred on or after January 1, 1994, for the acquisition, construction or reconstruction of qualified property;
 - Amounts upon which California sales or use tax has been paid, either directly or indirectly by the taxpayer (except those under 2 below); and
 - Amounts properly chargeable to the capital account of the qualified taxpayer (generally depreciable), except in the case of certain operating leases. See General Information G, Special Rules for Leased Property.
2. Qualified costs may also include the value of any capitalized labor that is either directly allocable to the construction or modification of qualified property or is a direct cost for constructing or modifying a special purpose building or foundation. **Note:** For guidelines to determine when engineering and design services will be considered direct capitalized labor costs, get FTB Notice 98-1.

Costs Under Binding Contracts Entered Into Prior to 1994

If otherwise qualified costs are paid or incurred pursuant to a binding contract entered into before January 1, 1994, the contract cost must be prorated. In this situation, the qualified costs are determined by applying the ratio of costs actually paid (irrespective of the qualified taxpayer's method of tax accounting) prior to January 1, 1994, to the total contract costs actually paid.

For purposes of determining what amounts were actually paid prior to January 1, 1994, any contractual deposits and option payments are treated as amounts paid.

Contract costs allocated to a period prior to January 1, 1994, are not qualified costs for purposes of the manufacturers' investment credit.

Example: On October 1, 1993, H, a qualified taxpayer, executes a contract to purchase

5 machines and 10 computers that are qualified property for a total of \$100 (plus applicable sales tax). Under the terms of the contract, H is required to make a nonrefundable \$20 deposit upon execution of the contract and pay the remaining \$80 upon delivery of the machines and computers. On May 1, 1994, the machines and computers are delivered and H pays the remaining \$80 due under the contract. In this example, the \$20 actually paid in 1993 will not be treated as a qualified cost, but the remaining \$80 paid in 1994 is a qualified cost.

Contracts that are replacement or successor contracts to contracts that were binding prior to January 1, 1994, will also be considered binding contracts in existence prior to January 1, 1994. However, if a successor or replacement contract also includes additional costs for constructing, reconstructing or acquiring property not described in the original binding contract, the additional costs may be considered costs paid or incurred on or after January 1, 1994.

A contract will be considered binding even if it is subject to a condition, such as forfeiture or cancellation. However, in the case of an option contract, if the option holder will forfeit an amount less than 10% of the fixed option price in the event the option is not exercised, then the option contract will not be treated as a binding contract under these rules.

G Special Rules for Leased Property

The following rules apply in the case of any qualified property that is leased by a qualified taxpayer:

- The credit is not allowed to the lessor (title-holder) of qualified property, whether or not the lessor is otherwise a qualified taxpayer. Only a lessee-user (renter or purchaser) can qualify.
- Lease agreements are treated as binding contracts for purposes of applying the binding contract allocation rules. See General Information F, Qualified Costs.
- Property leased under an operating (true) lease does not have to be chargeable to the qualified taxpayer's capital account, while property leased under a finance (capital) lease must be chargeable to the qualified taxpayer's capital account.
- The credit cannot be claimed for costs paid or incurred by a lessee who pays sales or use tax on the property to the lessor on a periodic basis, such as monthly ("pay-as-you-go") leases.
- For any lease treated as an operating lease, within 45 days after the close of the taxable or income year of the lessee for which the manufacturers' investment credit is allowable, the lessor should provide a statement to the lessee specifying the amount of the lessor's cost upon which sales or use tax has been paid in full by the lessor and the amount eligible for the credit. The lessee must retain a copy of this statement and make it available to the FTB upon request.

Determining Qualified Costs for Leased Property

The credit to be allowed to the lessee-user is computed using the lessor's original cost of the qualified property, which is generally determined using the rules under General Information F, Qualified Costs.

- The credit may only be claimed for the taxable or income year the qualified property is placed in service in California.
- The lessor's original cost basis is generally equal to the lessor's cost for depreciation purposes (less any California sales or use tax paid that is included in such cost basis). However, only amounts upon which California sales or use tax has been paid, either directly or indirectly by the lessor, plus any directly allocable capitalized labor costs, qualify for the manufacturers' investment credit and may be included in the lessor's original cost.
- The original cost to the lessor of the qualified property must be reduced by the amount of any original cost used in computing the manufacturers' investment credit by any predecessor lessee in a previous lease of the qualified property. However, this reduction is not required to the extent that a predecessor lessee was required to recapture the manufacturers' investment credit.
- If a lessor acquires qualified property that was previously leased from another lessor in a transaction that is not treated as a sale for California sales or use tax purposes, the original cost to the new lessor for the manufacturers' investment credit purposes must be reduced by the amount of the original cost used in computing the manufacturers' investment credit by any predecessor lessee. Generally, this will result in the new lessor having no original cost for manufacturers' investment credit purposes unless the new lessor elects to pay California sales or use tax on the acquisition.

H Definitions

The following definitions apply for purposes of credit qualification:

Fabricating — Making, building, creating, producing or assembling components or property to work in a new or different manner.

Manufacturing — Converting or conditioning property by changing its form, composition, quality or character ultimately for retail sale or use in the manufacturing of another product intended for retail sale.

Pollution Control — Activity that results in the abatement, reduction, or control of water, land or air pollution or contamination by removing, altering, disposing, storing or preventing the creation or emission of pollutants, contaminants, wastes or heat, but only to the extent that such activity meets or exceeds local, regional or state standards.

Process — The period beginning when raw materials are received and introduced into the manufacturing, processing, refining, fabricating, or recycling activity of the qualified taxpayer and ending at the point at which the manufacturing, processing, refining,

fabricating, or recycling activity has altered tangible personal property to its completed form, including packaging, if required.

Processing — Physical application of materials and labor needed to change the characteristics of property.

Recycling — Process of modifying, changing or altering the physical properties of manufacturing, processing, refining or fabricating secondary or postconsumer waste which results in the reduction, avoidance or elimination of the generation of waste.

Refining — Conversion of a natural resource to an intermediate or finished product.

Research and Development — Those activities described in IRC Section 174.

Small Business — Any taxpayer that as of the last day of the taxable or income year in which the credit is allowed, has either:

- Gross receipts of less than \$50 million;
- Net assets of less than \$50 million;
- A total manufacturers' investment credit of less than \$1 million; or
- Engaged in biopharmaceutical activities or other biotechnology activities (SIC Codes 2833 through 2836) and has not received regulatory approval for any product from the United States Food and Drug Administration (for taxable or income years beginning on or after January 1, 1997).

The determination of whether a taxpayer is a small business shall be made on a separate entity basis, and, in the case of any taxpayer engaged in multiple lines of business or that has multiple establishments, shall be made by aggregating all of the taxpayer's business activities.

I Limitations and Special Rules

The manufacturers' investment credit is not refundable.

The credit will not be allowed for any property for which a whole or partial sales or use tax exemption or refund has been claimed.

S corporations may claim only 1/3 of the credit against the 1.5% entity-level tax (3.5% for financial S corporations). In addition, S corporations can pass through 100% of the credit to their shareholders.

This credit can reduce regular tax below tentative minimum tax (TMT). However, it cannot reduce the alternative minimum tax (corporations, exempt organizations, individuals and fiduciaries).

This credit cannot reduce the minimum franchise tax (corporations, limited partnerships, limited liability partnerships, LLCs and S corporations), the built-in gains tax (S corporations) or the excess net passive income tax (S corporations).

Taxpayers operating a business establishment in a Local Agency Military Base Recovery Area (LAMBRA) or the Targeted Tax Area (TTA), cannot claim the LAMBRA or the TTA sales or use tax credit and the manufacturers' investment credit for the same property. For more information about LAMBRAs, get FTB 3807, Local Agency Military Base Recovery Area Business Booklet. For more information about the TTA, get FTB 3809, Targeted Tax Area Business Booklet.

The cost basis of the qualified property for depreciation purposes is not reduced by the amount of the credit.

Members of a Unitary or Combined Group.

This credit cannot be allocated or otherwise transferred to another taxpayer, even if the other taxpayer is a member of a unitary or combined group or otherwise affiliated with the taxpayer that earned the credit. For example, a subsidiary corporation that generates a manufacturers' investment credit cannot allocate the credit to the parent corporation.

J Credit Carryover and Limitation

Any part of the credit exceeding the tax liability in the taxable or income year may generally be carried over for a maximum of 8 years. However, if the qualified taxpayer meets the definition of a small business as of the last day of the taxable or income year in which year the credit is first allowed, then the credit may be carried over for 10 years. In no event can the credit be carried back and applied against a prior year's tax.

K Credit Recapture

If within 1 year from the date the property is first placed in service in California, the qualified property for which the manufacturers' investment credit was allowed is:

- Removed from California;
- Used primarily for a nonqualifying purpose;
- Disposed of to an unrelated party; or
- Acquired by a lessee (or acquired by a party related to the lessee) that is being leased by such lessee;

then the credit must be recaptured. The credit is recaptured by adding the amount of credit previously claimed to the qualified taxpayer's tax liability for the taxable or income year in which the recapture event occurs. Any manufacturers' investment credit carryover should first be reduced to the full extent before adding any recaptured credit to the current year tax liability. Any recapture amount remaining after the reduction of the carryover should be added to tax.

Example: In May 1998, within one year of placing qualified property in service in California, K disposes of qualified property for which a \$150 manufacturers' investment credit was previously allowed. K is required to recapture the entire \$150 manufacturers' investment credit. Assume K had \$100 in available manufacturers' investment credit carryovers. K would reduce its available manufacturers' investment credit carryovers to zero and would then increase its tax for 1998 by \$50 (\$150 recapture amount less \$100 used to reduce available manufacturers' investment credit carryovers).

Specific Instructions

Qualified Taxpayer's SIC Code Activity —

Enter the SIC code of the establishment that qualifies you to take this credit. If your enterprise has more than one establishment, and if more than one of the establishments qualifies you to take this credit, enter the SIC code that best represents the primary qualifying establishment.

Do not enter the Principal Business Activity Code Number from your state or federal tax return. These are NAICS codes and they are not the same as SIC codes. See General Information D, Qualified Taxpayer.

Specific Line Instructions

Part I — Credit Computation

Line 1, Column (b) — Primary use code. Enter the letter from those listed that represents the primary activity (used over 50% or more of the time) in which the property was used. The codes are listed under Part I on the form. See General Information H, Definitions.

Line 1, Column (c) — Enter the 4-digit SIC code for the primary activity in which the property was used. The property's SIC code activity is not necessarily the same as the Qualified Taxpayer's SIC code activity. See the list of SIC codes on page 5 and page 6.

Line 1, Column (d) — Enter "N" if the property was not leased. If the property was leased enter "Y" and see General Information G, Special Rules for Leased Property.

NOTE: If you are the lessor of the qualified property, you do not qualify for this credit.

Line 1, Column (f) — Enter the amount of California sales or use tax paid. In general, the California sales or use tax must be paid (directly or indirectly) on the qualified costs (except for costs paid or incurred on certain direct capitalized labor). See General Information F, Qualified Costs.

Line 1, Column (g) — For leased property, the lessee must enter the lessor's original cost less any California sales or use tax paid by the lessor. **Note:** "Pay-as-you-go" leases do not qualify for the manufacturers' investment credit because the lessor has not paid California sales or use tax on the lessor's acquisition of the property. See General Information G, Special Rules for Leased Property.

Line 1, Column (h) — Enter the total amount of direct capitalized labor costs associated with the qualified property. Qualified capitalized labor costs are all direct costs of labor (as defined in IRC Section 263A and regulations thereunder) that can be clearly identified or associated with the construction, modification or installation of qualified property. Indirect labor costs (such as training costs, officers' compensation, pension costs and employee benefit expenses) that cannot be identified or directly associated with the construction, modification or installation of specific items of qualified property cannot be claimed.

Line 1, Column (j) — Only costs that are properly chargeable to a taxpayer's capital account may be claimed as qualified costs; therefore, appropriate adjustments should be made to the qualified cost of the property for purposes of the manufacturers' investment credit. Enter the total of accelerated deductions such as the IRC Section 179 deduction and the business expense deduction allowed for enterprise zones, the Los Angeles Revitalization Zone (LARZ),

LAMBRAs and the TTA. Also, enter any unrecognized gain resulting from an IRC Section 1031 or 1033 exchange of this item for the item being replaced.

Line 5 — Enter any pass-through credit(s) received from S corporations, estates or trusts, partnerships or LLCs passed through to you on Schedule(s) K-1 (100S, 541, 565 or 568).

Line 7 — S corporations may use the amount reported on this line (1/3 of the credit) to offset the 1.5% entity-level tax (3.5% for financial S corporations). The S corporation can then pass through 100% of the credit to its shareholders.

Line 8 — Enter the total available credit carryover from prior year(s) from your 1997 form FTB 3535, line 11.

Line 10 — The amount of this credit that you can claim on your tax return may be limited further. Refer to the credit instructions in your tax booklet for more information. These instructions also explain how to claim this credit on your tax return. Use credit code number **199** when you claim this credit.

Credits generated by a pass-through entity must be determined at the entity level. Once the amount of total credit has been determined by the pass-through entity, it is then passed through to the shareholders, beneficiaries, partners or members and claimed on each recipient's individual or entity tax return.

Note: Except as explicitly described in the paragraph above, the credit may not be allocated to other affiliated entities. For example, if one corporation is entitled to the credit but has no tax liability, it cannot allocate the unused credit amount to another member of the same unitary group.

Part II — Credit Use and Carryover Periods

The length of the credit carryover period is determined by whether or not the business meets the definition of a small business as of the last day of the taxpayer's taxable or income year in which the credit is first allowed. Therefore, the determination of whether the business meets the definition of a small business in subsequent years (years after the credit carryover is generated) has no bearing on the original determination of the length of the credit carryover period. If the business meets the definition of a small business as described in General Information H, the credit carryover period is 10 years. A business that is not a small business can carry over the credit for 8 years.

The length of the credit carryover period for a credit generated by a pass-through entity (S corporation, estate or trust, partnership or LLC taxed as a partnership) is determined at the pass-through entity level.

Line 4, column (b) and line 8, column (b) — Enter the amount from Part I, line 6 or Part I, line 7 on either Part II, line 4 or Part II, line 8, as appropriate.

Part III — Credit Recapture

Any credit amounts previously claimed must be added back to your tax liability if any of the events listed below have occurred within one year of the date the qualified property was placed in service in California. The recapture codes listed to the left of each event that caused recapture of the manufacturers' investment credit should be used to complete Part III, line 1, column (b), for each item of qualified property for which the credit must be recaptured.

Recapture Code	Event Causing Recapture
1	Qualified property is physically moved out of California.
2	Qualified property is primarily used in a non-qualified activity. (See General Information E, Qualified Property, for more information on qualified activities).
3	Qualified property is sold or otherwise transferred to an unrelated party.
4	Qualified leased property is acquired by the lessee-user (or party related to the lessee-user) who claimed the manufacturers' investment credit for such leased property prior to acquiring the property.

Line 1, column (a) — List each item of property that caused recapture.

Line 1, column (b) — Enter the recapture reason code from the list above that corresponds to the event that caused recapture of the manufacturers' investment credit.

Line 1, column (c) — Enter the amount of recapture for each item of property entered in column (a).

Any manufacturers' investment credit carryover should first be reduced to the full extent before adding any recaptured credit to the current year tax liability. Any recapture amount remaining after the reduction of the carryover should be added to tax and reported here (Part III, line 1, column (c)). See the instructions for line 2 below for where to report the recapture amounts on your California tax return. Also see the example in General Information K, Credit Recapture.

Line 2, column (c) — Add the amounts in column (c). Enter the total here and on your California tax return or schedule as follows:

- Form 100, Schedule J, line 5;
- Form 100S, Schedule J, line 5 and Schedule K-1 (100S), line 23. See note below;

- Schedule K (109);
- Form 540, line 36;
- Form 540NR, line 45;
- Form 541, line 21b and Schedule K-1 (541), line 11e;
- Schedule K (565), line 22 and Schedule K-1 (565), line 22; or
- Schedule K (568), line 22 and Schedule K-1 (568), line 22.

Indicate that you included the manufacturers' investment credit recapture on the tax return by writing "FTB 3535" in the space to the left of the amount on the schedule or form.

Shareholders, beneficiaries, partners and members of S corporations, estates or trusts, partnerships or LLCs taxed as partnerships must recapture the portion of the credit that was previously claimed. S corporations, estates or trusts, partnerships and LLCs taxed as partnerships must show the recapture amount for each shareholder, beneficiary, partner or member on Schedule K-1 (100S, 541, 565 or 568) as provided above.

Note: For an S corporation, the recapture amount for the shareholder(s) will differ from the amount recaptured by the S corporation on Form 100S, Schedule J, line 5, since S corporations can only claim 1/3 of the credit.

Where to Get Tax Forms

By Internet — If you have Internet access, you may download, view and print 1994 through 1998 California tax forms and publications. Our Internet address is:
<http://www.ftb.ca.gov>

By phone — Use Fast Answers about State Taxes (F.A.S.T.) to order 1996, 1997 and 1998 California personal income tax forms, 1998 California corporate tax forms and 1998 federal forms. To order a form:

- Refer to the list in your tax booklet and find the code number for the form you want to order.
- Call (800) 338-0505 and follow the instructions.

Please allow 2 weeks to receive your order. If you live outside California, please allow 3 weeks to receive your order.

In person — Most libraries, post offices and banks provide free California tax booklets during the filing season. Many libraries and some quick print businesses have forms and schedules for you to photocopy (you may have to pay a nominal fee). Note that employees at libraries, post offices, banks and quick print businesses cannot provide tax information or assistance.

By mail — Write to:

TAX FORMS REQUEST UNIT
FRANCHISE TAX BOARD
PO BOX 307
RANCHO CORDOVA CA 95741-0307

Standard Industrial Classification Manual (1987 Edition)

Division D — Manufacturing (Partial Listing)

The SIC Manual is organized using a hierarchical structure, first by division, then by 2-digit major groups within each division, then by 3-digit industry groups within each major group and finally by 4-digit industry codes within each industry group.

Classification of business activities is based upon establishments, which are defined in the SIC Manual as an economic unit, generally at a single physical location, where business is conducted or where services or industrial operations are performed. A taxpayer's enterprise may consist of more than one establishment. The SIC Manual provides the following examples of establishments: a factory, mill, store, hotel, movie theater, mine, farm, ranch, bank, railroad depot, airline terminal, sales office, warehouse or central administrative office. Where distinct and separate economic activities are performed at a single physical location (such as construction activities operated out of the same physical location as a lumber yard), each activity should be treated as a separate establishment where: (1) no one industry description in the SIC Manual includes such combined activities; (2) the employment in each economic activity is significant; and (3) separate reports are prepared on the number of employees, their wages and sala-

ries, sales or receipts, property and equipment and other types of financial data, such as financial statements, job costing and profit center accounting.

For purposes of this publication, only 4-digit industry codes within Division D, Manufacturing, are listed since only taxpayers with establishments in those industry codes (SIC Codes 2011-3999) qualify for the manufacturers' investment credit with a limited exception for special purpose buildings of taxpayers engaged in:

- Biotech activities classified under SIC Code 8731;
- Biopharmaceutical only activities classified under SIC Codes 2833-2836;
- Space vehicles and parts activities classified under SIC Codes 3761-3769;
- Space satellites and communications satellites and equipment activities classified under SIC Codes 3663 and 3812, on or after January 1, 1996; or
- Semiconductor equipment manufacturing classified under SIC Code 3559, on or after January 1, 1997.

For taxable or income years beginning on or after January 1, 1998, taxpayers with establishments in SIC Codes 7371-7373 also qualify for the manufacturers' investment credit.

The complete Standard Industrial Classification Manual, 1987 Edition, is available for purchase from:

NATIONAL TECHNICAL INFORMATION SERVICE, 5285 PORT ROYAL ROAD, SPRINGFIELD VIRGINIA 22161
Order No. PB 87-100012

The 4-digit industry codes within Division D of the SIC Manual are: (nec means "not elsewhere classified")

3291 Abrasive products	3995 Burial caskets	3961 Costume jewelry	3069 Fabricated rubber products, nec
2891 Adhesives & sealants	3578 Calculating & accounting equipment	2074 Cottonseed oil	3441 Fabricated structural metal
2879 Agricultural chemicals, nec	2064 Candy & other confectionery pdts	2021 Creamery butter	2399 Fabricated textile pdts, nec
3563 Air & gas compressors	2062 Cane sugar refining	3466 Crowns & closures	3523 Farm machinery & equipment
3728 Aircraft parts & equipment, nec	2033 Canned fruits & vegetables	3643 Current-carrying wiring devices	3965 Fasteners, buttons, needles & pins
3724 Aircraft engines & engine parts	2091 Canned & cured fish & seafood	2391 Curtains & draperies	2875 Fertilizers, mixing only
3721 Aircraft	2032 Canned specialties	3087 Custom compound purchased resins	2655 Fiber cans, drums & sim. products
2812 Alkalies & chlorine	2394 Canvas & related products	3281 Cut stone & stone products	2262 Finishing plants, manmade
3354 Aluminum extruded products	3955 Carbon paper & inked ribbons	3421 Cutlery	2261 Finishing plants, cotton
3355 Aluminum rolling & drawing, nec	2895 Carbon black	2865 Cyclic crudes & intermediates	2269 Finishing plants, nec
3365 Aluminum foundries	3624 Carbon & graphite products	2034 Dehydrated fruits, vegetables, soups	3211 Flat glass
3353 Aluminum sheet, plate & foil	3592 Carburetors, pistons, rings valves	3843 Dental equipment & supplies	2087 Flavoring extracts & syrups, nec
3363 Aluminum die-casting	2273 Carpets & rugs	2835 Diagnostic substances	2041 Flour & other grain mill products
3483 Ammunition, exc for small arms, nec	2823 Cellulosic manmade fiber	2675 Die-cut paper products	3824 Fluid meters & counting devices
3826 Analytical instruments	3241 Cement, hydraulic	2085 Distilled & blended liquors	3492 Fluid power valves & hose fittings
2077 Animal & marine fats & oils	3253 Ceramic wall & floor tile	2047 Dog & cat food	2026 Fluid milk
2387 Apparel belts	2043 Cereal breakfast foods	3942 Dolls & stuffed toys	3594 Fluid power pumps & motors
2389 Apparel & accessories, nec	2022 Cheese, natural & processed	2591 Drapery hardware & blinds & shades	3593 Fluid power cylinders & actuators
3446 Architectural metal work	2899 Chemical preparations, nec	2023 Dry, condensed, evaporated dairy products	2657 Folding paperboard boxes
3292 Asbestos products	2067 Chewing gum	2079 Edible fats & oils, nec	2099 Food preparations, nec
2952 Asphalt felts & coatings	2131 Chewing & smoking tobacco	3641 Electric lamps	3556 Food products machinery
2951 Asphalt paving mixtures & blocks	2066 Chocolate & cocoa products	3634 Electric housewares & fans	3131 Footwear cut stock
3581 Automatic vending machines	2111 Cigarettes	3699 Electrical equipment & supplies, nec	3149 Footwear, except rubber, nec
2396 Automotive & apparel trimmings	2121 Cigars	3629 Electrical industrial apparatus, nec	2092 Fresh/frozen prepared fish/seafood
3465 Automotive stampings	3255 Clay refractories	3845 Electromedical equipment	2053 Frozen bakery products, except bread
2673 Bags: plastic, laminated & coated	2295 Coated fabrics, not rubberized	3313 Electrometallurgical products	2038 Frozen specialties, nec
2674 Bags: uncoated paper & multiwall	3316 Cold finishing of steel shapes	3679 Electronic components, nec	2037 Frozen fruits & vegetables
3562 Ball & roller bearings	2754 Commercial printing, gravure	3678 Electronic connectors	2371 Fur goods
2063 Beet sugar	2752 Commercial printing, lithographic	3671 Electron tubes	2599 Furniture & fixtures, nec
2836 Biological products exc. diagnostic	2759 Commercial printing, nec	3675 Electronic capacitors	3944 Games, toys, & children's vehicles
2782 Blankbooks & looseleaf binders	3582 Commercial laundry equipment	3676 Electronic resistors	3053 Gaskets, packing & sealing devices
3312 Blast furnace & steel mills	3646 Commercial lighting fixtures	3677 Electronic coils & transformers	3569 General industrial machinery, nec
3564 Blowers & fans	3669 Communication equipment	3571 Electronic computers	2369 Girls' & children's outerwear, nec
3732 Boat building & repairing	3577 Computer peripheral equipment, nec	3534 Elevators & moving stairways	2361 Girls' & children's dresses, blouses
3452 Bolts, nuts rivets & washers	3575 Computer terminals	3694 Engine electrical equipment	3221 Glass containers
2731 Book publishing	3572 Computer storage devices	2677 Envelopes	3321 Gray & ductile iron foundries
2732 Book printing	3271 Concrete block & brick	3822 Environmental controls	2771 Greeting cards
2789 Bookbinding & related work	3272 Concrete products, nec	2892 Explosives	3761 Guided missiles & parts
2086 Bottled & canned soft drinks	3531 Construction machinery	2381 Fabric dress & work gloves	2861 Gum & wood chemicals
2342 Bras, girdles & allied garments	2679 Converted paper products, nec	3499 Fabricated metal products, nec	3275 Gypsum products
2051 Bread, cake, & related products	3535 Conveyors & conveying equipment	3443 Fabricated plate work (boiler shops)	3423 Hand & edge tools, nec
3251 Brick & structural clay tile	2052 Cookies & crackers	3498 Fabricated pipe & fittings	3996 Hardsurface floor coverings, nec
2211 Broadwoven fabric mills, cotton	3351 Copper rolling & drawing		2429 Hardware, nec
2221 Broadwoven fabric mills, manmade	3366 Copper foundries		2426 Hardwood dimensions & flooring mills
2231 Broadwoven fabric mills, wool	2298 Cordage & twine		
3991 Brooms & brushes	2653 Corrugated & solid fiber boxes		

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2435	Hardwood veneer & plywood	3398	Metal heat treating	3448	Prefabricated metal buildings	2822	Synthetic rubber
2353	Hats, caps & millinery	3411	Metal cans	2452	Prefabricated wood buildings	3795	Tanks & tank components
3433	Heating equip, except electric	3412	Metal barrels, drums & pails	2045	Prepared flour mixes & doughs	3661	Telephone & telegraph apparatus
3536	Hoists, cranes & monorails	3431	Metal sanitary ware	2048	Prepared feeds, nec	3552	Textile machinery
2252	Hosiery, nec	3497	Metal foil & leaf	3652	Prerecorded records & tapes	2393	Textile bags
2392	House furnishings, nec	3479	Metal coating & allied services	3229	Pressed & blown glass, nec	2299	Textile goods, nec
3142	House slippers	3469	Metal stampings, nec	3399	Primary metal products, nec	2284	Thread mills
3651	Household audio & video equipment	3442	Metal door, sash & trim	3339	Primary nonferrous metals, nec	2282	Throwing & winding mills
3635	Household vacuum cleaners	2431	Millwork	3334	Primary aluminum	2296	Tire cord & fabrics
3631	Household cooking appliances	3296	Mineral wool	3331	Primary copper	3011	Tires & inner tubes
3633	Household laundry equipment	3295	Minerals, ground or treated	3692	Primary batteries, dry & wet	2141	Tobacco stemming & redrying
3639	Household appliances, nec	3532	Mining machinery	3672	Printed circuit boards	2844	Toilet preparations
2519	Household furniture, nec	2741	Misc publishing	2893	Printing ink	3612	Transformers, except electronic
3632	Household refrigerators & freezers	3449	Misc metal work	3555	Printing trades machinery	3799	Transportation equipment, nec
2024	Ice cream & frozen desserts	3496	Misc fabricated wire products	3823	Process control instruments	3792	Travel trailers & campers
3491	Industrial valves	2451	Mobile homes	3231	Products of purchased glass	3713	Truck & bus bodies
2819	Industrial inorganic chem, nec	3716	Motor homes	2531	Public building & related furniture	3715	Truck trailers
3599	Industrial machinery, nec	3711	Motor vehicles & car bodies	2611	Pulp mills	3511	Turbines & turbines generator sets
2869	Industrial organic chem, nec	3621	Motor & generators	3561	Pumps & pumping equipment	2791	Typesetting
3537	Industrial trucks & tractors	3714	Motor vehicle parts & accessories	3663	Radio & TV communication equip	3082	Unsupported plastic profile shapes
2813	Industrial gases	3751	Motorcycles, bicycles & parts	3743	Railroad equipment	3081	Unsupported plastic film & sheet
3543	Industrial patterns	3931	Musical instruments	2061	Raw sugar cane	2512	Upholstered household furniture
3567	Industrial furnaces & ovens	2441	Nailed wood boxes & shook	3273	Ready-mixed concrete	3494	Valves & pipe fittings, nec
2816	Inorganic pigments	2241	Narrow fabric mills	2493	Reconstituted wood products	2076	Vegetable oil mills, nec
3825	Instruments to measure electricity	2711	Newspapers	3585	Refrigeration & heating equipment	3647	Vehicular lighting equipment
3519	Internal combustion engines, nec	2873	Nitrogenous fertilizers	3625	Relays & industrial controls	3261	Vitreous plumbing fixtures
3462	Iron & steel forging	3297	Nonclay refractories	3645	Residential lighting fixtures	3262	Vitreous china table & kitchenware
3915	Jewelers' materials & lapidary work	3644	Noncurrent-carrying wiring devices	2044	Rice milling	3873	Watches, clocks & parts
3911	Jewelry, precious metal	3369	Nonferrous foundries, nec	2095	Roasted coffee	2385	Waterproof outerwear
2253	Knit outerwear mills	3364	Nonferrous die-casting, exc. aluminum	2384	Robes & dressing gowns	2257	Weft knit fabric mills
2254	Knit underwear mills	3357	Nonferrous wiredrawing & insulating	3547	Rolling mill machinery	3548	Welding apparatus
2259	Knitting mills, nec	3356	Nonferrous rolling & drawing, nec	3052	Rubber & plastic hose & belting	2046	Wet corn milling
3821	Laboratory apparatus & furniture	3341	Nonferrous metals	3021	Rubber & plastic footwear	2084	Wines, brandy & brandy spirits
2258	Lace & warp knit fabric mills	3463	Nonferrous forging	2068	Salted & roasted nuts & seeds	3495	Wire springs
3083	Laminated plastic plate & sheet	3299	Nonmetallic mineral products, nec	2656	Sanitary food containers	2337	Women's & misses' suits & coats
3524	Lawn & garden equipment	2297	Nonwoven fabrics	2676	Sanitary paper products	2335	Women's, juniors' & misses' dresses
3952	Lead pencils & art goods	3579	Office machines, nec	2013	Sausages & other prepared meats	2341	Women's & children's underwear
3199	Leather goods, nec	2522	Office furniture, except wood	3425	Saw blades & handsaws	2251	Women's hosiery, except socks
2386	Leather & sheep-lined clothing	3533	Oil & gas field machinery	2421	Sawmills & planing mills, general	2339	Women's & misses' outerwear, nec
3111	Leather tanning & finishing	3851	Ophthalmic goods	3596	Scales & balances, except laboratory	2331	Women's & misses' blouses & shirts
3151	Leather gloves & mittens	3827	Optical instruments & lenses	2397	Schiffli machine embroideries	3171	Women's handbags and purses
3648	Lighting equipment	3489	Ordnance & accessories, nec	3451	Screw machine products	3144	Women's footwear, except athletic
3274	Lime	2824	Organic fibers, noncellulosic	3812	Search & navigation equipment	2491	Wood preserving
2411	Logging	3565	Packaging machinery	3674	Semiconductors & related devices	2499	Wood products, nec
2992	Lubricating oils & greases	2851	Paints & allied products	3263	Semivitreous table & kitchenware	2434	Wood kitchen cabinets
3161	Luggage	3554	Paper industries machinery	3589	Service industry machinery, nec	2541	Wood partitions & fixtures
2098	Macaroni, spaghetti & noodles	2621	Paper mills	2652	Setup paperboard boxes	2521	Wood office furniture
3541	Machine tools, metal cutting types	2671	Paper coated & laminated, pkging	3444	Sheet metal work	2517	Wood TV & radio cabinets
3545	Machine tool accessories	2672	Paper coated & laminated, nec	3731	Ship building & repairing	2449	Wood containers, nec
3542	Machine tools, metal forming type	2631	Paperboard mills	3993	Signs & advertising specialties	2511	Wood household furniture
3695	Magnetic & optical recording media	2542	Partitions & fixtures, except wood	3914	Silverware and plate ware	2448	Wood pallets & skids
3322	Malleable iron foundries	3951	Pens & mechanical pencils	3484	Small arms	3553	Woodworking machinery
2083	Malt	2721	Periodicals	3482	Small arms ammunition	3844	X-ray apparatus & tubes
2082	Malt beverages	3172	Personal leather goods, nec	2841	Soap & other detergents	2281	Yarn spinning mills
2761	Manifold business forms	2911	Petroleum refining	2436	Softwood veneer & plywood		
2097	Manufactured ice	2999	Petroleum & coal products, nec	2075	Soybean oil mills		
3999	Manufacturing industries, nec	2834	Pharmaceutical preparations	3769	Space vehicle equipment & parts		
3953	Marking devices	2874	Phosphatic fertilizers	3764	Space propulsion units & parts		
2515	Mattresses & bedsprings	3861	Photographic equipment & supplies	2429	Special product sawmills, nec		
3586	Measuring & dispensing pumps	2035	Pickles, sauces & salad dressing	3544	Special dies, tools, jigs & fixtures		
3829	Measuring & controlling devices, nec	3085	Plastic bottles	3559	Special industry machinery, nec		
2011	Meat packing plants	3086	Plastic foam products	3566	Speed changers, drives & gears		
3061	Mechanical rubber goods	2821	Plastic materials & resins	3949	Sporting & athletic goods, nec		
2833	Medicinal & botanicals	3084	Plastic pipe	2678	Stationery products		
2325	Men's & boys' trousers & slacks	3088	Plastic plumbing fixtures	3493	Steel springs, except wire		
3143	Men's footwear, except athletic	3089	Plastic products, nec	3315	Steel wire & related products		
2323	Men's & boys' neckwear	2796	Platemaking service	3317	Steel pipe & tubes		
2329	Men's & boys' clothing, nec	3471	Plating & polishing	3325	Steel foundries, nec		
2321	Men's & boys' shirts	2395	Pleating & stitching	3324	Steel investment foundries		
2322	Men's & boys' underwear & nightwear	3432	Plumbing fixture fittings & trim	3691	Storage batteries		
2326	Men's & boys' work clothing	2842	Polishes & sanitation goods	3259	Structural clay products, nec		
2311	Men's & boys' suits & coats	3264	Porcelain electrical supplies	2439	Structural wood members, nec		
2514	Metal household furniture	2096	Potato chips & similar snacks	2843	Surface active agents		
3549	Metalworking machinery, nec	3269	Pottery products, nec	3841	Surgical & medical instruments		
		2015	Poultry slaughtering & processing	3842	Surgical appliances & supplies		
		3568	Power transmission equipment, nec	3613	Switchgear & switchboard apparatus		
		3546	Power-driven handtools				